State of California
Business, Transportation & Housing Agency
Department of Transportation

POLICY MATTERS
Assumptions for 2002 STIP Fund Estimate
Action Item

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Agenda Item: 4.2b.

Original Signed By
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ASSUMPTIONS FOR 2002 FUND ESTIMATE

BACKGROUND

The purpose of the Fund Estimate (FE) is to provide an annual estimate of all Federal and State funds reasonably expected to be available for programming in the subsequent State Transportation Improvement Program (STIP). Caltrans is required to present a proposed FE by July 15 and the California Transportation Commission (CTC) to adopt a FE by August 15 of each odd numbered year. The CTC is required to adopt a STIP by April of the year following the adoption of the FE.

Date(s)	Milestone
June 6-7, 2001	Present 2002 Working Assumptions to Commission
July 11-12, 2001	Submit Draft 2002 STIP Fund Estimate to Commission
August 22-23, 2001	Commission adoption of 2002 STIP Fund Estimate

DISCUSSION

There are a number of assumptions and issues that must be addressed in developing the 2002 STIP Fund Estimate. A workbook with the key assumptions and issues will be presented for discussion at the meeting.

FUND ESTIMATE ASSUMPTION HIGHLIGHTS

The purpose of the Fund Estimate (FE) is to provide an estimate of all Federal and State funds reasonably expected to be available for programming in the subsequent State Transportation Improvement Plan (STIP). Caltrans is required to present a proposed FE by July 15 and the California Transportation Commission (CTC) to adopt a FE by August 15 of each odd numbered year. There are a number of assumptions that must be made in developing the 2002 STIP Fund Estimate. The key assumptions are presented in this workbook for adoption by the commission.

Fund Estimate Assumptions Based on Proposed Budget

The draft FE presented to the CTC in July will be based on the proposed budget. However, the FE presented in August will be based on the enacted budget. If the commission finds that legislation pending before the Legislature may have a significant impact on the FE, statute allows the commission to postpone the adoption for no more than 90 days.

May Revise

This Fund Estimate contains a number of assumptions based on the May Revise currently being considered by the Legislature. An overview of the May Revise is outlined below:

- All anticipated cash requirements for programmed projects will be met as scheduled.
- Because of the large cash balance in the Traffic Congestion Relief Fund (TCRF) and the State highway Account (SHA), planned transfers to the Transportation Investment Fund (TIF) for the next two years will be deferred.
- The SHA will fund local road rehabilitation and support costs for the Traffic Congestion Relief Projects for the next two years and will be repaid in the 2006-2007.
- The Public Transportation Account (PTA) will fund $280 million in transit project costs for the next two years and will be repaid in 2007-2008.
- The General Fund transfers to the TIF will be extended for two additional years through 2007-2008.
- The State Transit Assistance Program will be funded at $171 million in the budget year (verses $116 million in current year) and will receive increases throughout the Fund Estimate period.
- At the end of the plan, all loans will be fully repaid and over $500 million of additional funds will be made available for transportation.

PUBLIC TRANSPORTATION ACCOUNT ASSUMPTIONS

PTA-1 Fund Estimate Item: Revenues

1. The Transportation Refinancing Plan in the May Revision proposes to limit "spillover" revenue to the PTA to $81 million in 2001-02 and $37 million in 2002-03. The spillover formula was added to statute when gasoline was added to the sales tax base and the state sales tax rate was reduced by 1/4 percent. The idea was that adding gasoline to the sales tax base wasn't supposed to increase General Fund revenues because the revenue loss from the 1/4 percent reduction was supposed to offset the additional revenue from taxing gasoline. To make sure that the General Fund didn't benefit from taxing gasoline, the spillover formula was added. It says that when the revenue from gasoline sales is greater than 1/4 percent of all other sales, the additional revenue (the "spillover") goes to the PTA.
2. Gasoline and diesel fuel sales tax revenues reflect an average annual growth rate of 1.8 percent.

PTA-2 Fund Estimate Item: Adjustment to Revenue - State Transit Assistance (Special Transportation Program)

1. For FY 2002-03, Transportation Refinancing Plan of the May Revision proposed to fund STA at a level higher than 50 percent of fuel sales tax revenues. Consequently, this will require the expenditure of $26 million from the PTA to keep funding at a consistent level.

PTA-3 Fund Estimate Item: Adjustment to Revenue – Transfers

1. The Transportation Refinancing Plan in the May Revision proposes to defer the Transportation Investment Fund transfers for two years. This will reduce projected PTA revenues during 2001-02 and 2002-03 by approximately $177 million and increase projected revenues in 2006-07 and 2007-08 by an estimated $295 million.
2. The Transportation Refinancing Plan also proposes to borrow $280 million to fund transit project costs in the Traffic Congestion Relief Fund (TCRF). These funds will be repaid to the PTA in 2007-08.

STATE HIGHWAY ACCOUNT ASSUMPTIONS

SHA-1 Fund Estimate Item: Revenues - Cash Balance

1. Assume a prudent cash balance of $140 million.

SHA-2 Fund Estimate Item: Revenues - Federal

1. TEA-21 will expire September 30, 2003. Federal apportionments are expected to grow by two percent annually during the TEA-21 period.

2. While the outcome of a new federal transportation act cannot be predicted, the last two federal acts have increased total apportionments by more than 50 percent. Therefore, it is reasonable to assume a 20 percent increase in apportionments in the first year of the new federal act. Thereafter, apportionments are projected to increase by 2 percent per year.
3. Existing programs including AC are assumed to continue into the next Federal transportation act.
4. The Department's goal is to maintain an AC level of approximately $1.2 billion over the FE period.
5. Assume obligational authority is 90.5 percent of apportionments over the FE period.

SHA-3 Fund Estimate Item: Revenues – Garvee Bonds

1. Assume no GARVEE bonding. However, GARVEE bonding is a financing option that the CTC may consider if an urgent project meets the adopted criteria.

SHA-4 Fund Estimate Item: Revenues - State

1. Fuel tax revenues, which are driven by fuel consumption, reflect a projected 2.2 percent average annual growth over the 2002 FE due to increase in consumption.
2. Weight Fee revenues growth rate is projected to average 3.8 percent annually.
3. Assumes the impact of the proposed Transportation Refinancing Plan of $354 million ($154 million in 01-02 and $200 million in 02-03) for Local Roads due to the Traffic Congestion Relief Fund deferring funding for two years. The funding will be reimbursed to the SHA in 2006-07.
4. Assumes the shift of support cost from the Traffic Congestion Relief Fund to the State Highway Account in the amount of $180 million to be reimbursed in 2006-07.

SHA-5 Fund Estimate Item: Expenditures - Escalation Rates

1. Establish rates for estimating State Operations costs and Capital construction costs. Options include:
   - State Operation costs at the Department of Finance (DOF) rate of 2.7%
   - Capital construction cost at the Department's California Highway Construction Cost Index (CHCCI) historical growth rate of 3.4%

SHA-6 Fund Estimate Item: Expenditures - State Operations

1. Assume a contingency of $50 million for Budget Change Proposals and Finance Letters in 2002-03 and 2003-04.

SHA-7 Fund Estimate Item: Expenditures – State Highway Operations Program Plan (SHOPP)

1. The Department will be proposing an increase in the SHOPP program as part of the Fund Estimate in July.

SHA-8 Fund Estimate Item: Expenditures - Local Assistance

1. Assume Local Assistance project delivery is 100 percent over the FE period.
2. Assume no repayment in the FE period of the estimated $380 million in Local Assistance OA used by the State in previous years.

SHA-9 Fund Estimate Item: Expenditures - Reservations

1. Assume no amount held in reserve for economic uncertainties.

SHA-11 Fund Estimate Item: Expenditures - Contingencies

1. Assume the same level of contingencies as in the adopted 2000 FE, which was $330 million in 2001-02, $287 million in 2002-03 and $237 million in 2003-04.

TRANSPORTATION INVESTMENT FUND ASSUMPTIONS

TIF -1 Fund Estimate Item: Transportation Investment Fund (TIF)

1. The Transportation Refinancing Plan in the May Revision proposes to defer the General Fund transfer to the TIF for two years. This is projected to increase the total funding available for STIP programming over the life of the TIF by $474 million.

PROPOSED
2002 STATE TRANSPORTATION IMPROVEMENT PROGRAM (STIP)
FUND ESTIMATE ASSUMPTIONS

CALIFORNIA TRANSPORTATION COMMISSION

JUNE 6-7, 2001
SAN JOSE, CALIFORNIA

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PROPOSED 2002 STIP FUND ESTIMATE

BACKGROUND

The purpose of the Fund Estimate (FE) is to provide an estimate of all Federal and State funds reasonably expected to be available for programming in the subsequent State Transportation Improvement Plan (STIP). Caltrans is required to present a proposed FE by July 15 and the California Transportation Commission (CTC) to adopt a FE by August 15 of each odd numbered year. There are a number of assumptions that must be made in developing the 2002 STIP Fund Estimate. The key assumptions are presented in this workbook for adoption by the commission.

The draft FE presented to the CTC in July will be based on the proposed budget; however, the FE presented in August will be based on the enacted budget. Additionally, if the commission finds that legislation pending before the Legislature may have a significant impact on the FE, statute allows the commission to postpone the adoption for no more than 90 days.

Date(s)	Milestone
May 2-3, 2001	Presented 2002 STIP Fund Estimate Assumptions to CTC
June 6-7, 2001	CTC adopts assumptions to guide development of 2002 STIP Fund Estimate
July 11-12, 2001	CTC adoption of 2002 STIP Guidelines
July 11-12, 2001	Department submits draft 2002 STIP Fund Estimate to CTC
August 22-23, 2001	CTC adoption of 2002 STIP Fund Estimate
December 15, 2001	2002 ITIP and RTIP's Plans due to CTC
January-February 2002	STIP hearings
March 2002	CTC staff STIP recommendations released
April 1, 2002	CTC adoption of 2002 STIP

PUBLIC TRANSPORTATION ACCOUNT (PTA)

ASSUMPTIONS

Fund Estimate Item: Revenues

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- Slightly lower revenues, primarily from the sales tax on gasoline and diesel fuel, were based on the Department of Finance's (DOF) May 1999 revised estimate, escalated at 2.3 percent annually.
- Interest income was based on a "floating" cash balance using the current rate from the Surplus Money Investment Fund (SMIF).

Changes since the Revised 2000 FE Adoption:

1. The price of gasoline and diesel fuel has continued at high level and as such the beginning fuel tax revenues are considerably higher than in the Revised 2000 Fund Estimate (FE).
2. Beginning reserves for the Public Transportation Account (PTA) are about $171 million higher than the beginning reserves for the 2000 PTA FE.
3. AB 2928 (Chapter 91, Statutes of 2000) codified the transfer of non-Article XIX revenues from the State Highway Account (SHA) into the PTA.
4. Transfers from the General Fund to the Transportation Investment Fund (TIF) are expected to be higher than in the Revised 2000 PTA FE.
5. Interest income is based on the ending cash balance and uses the current Surplus Money Investment Fund (SMIF) interest rate of 6.493 percent which is higher than in 2000.

Assumptions / Options / Issues:

1. The Transportation Refinancing Plan in the May Revision proposes to limit "spillover" revenue to the PTA to $81 million in 2001-02 and $37 million in 2002-03. The spillover formula was added to statute when gasoline was added to the sales tax base and the state sales tax rate was reduced by 1/4 percent. The idea was that adding gasoline to the sales tax base wasn't supposed to increase General Fund revenues because the revenue loss from the 1/4 percent reduction was supposed to offset the additional revenue from taxing gasoline. To make sure that the General Fund didn't benefit from taxing gasoline, the spillover formula was added. It says that when the revenue from gasoline sales is greater than 1/4 percent of all other sales, the additional revenue (the "spillover") goes to the PTA.
2. Gasoline and diesel fuel sales tax revenues reflect an average annual growth rate of 1.8 percent.

Fund Estimate Item: Adjustment to Revenue - State Transit Assistance (Special Transportation Program)

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- State Transit Assistance was estimated by statutory formula - 50 percent of tax revenue from the PTA and the TIF.

Changes since the Revised 2000 FE Adoption:

1. The 2001-02 Proposed Governor's Budget funds the State Transit Assistance (STA) program at the statutory level.
2. The transfer to the State Transit Assistance program is estimated to be $860 million over five years and is considerably higher than the Revised 2000 FE.

Assumptions / Options / Issues:

1. For FY 2002-03, Transportation Refinancing Plan of the May Revision proposes to fund STA at a level higher than 50 percent of fuel sales tax revenues. Consequently, this will require the expenditure of $26 million from the PTA to keep funding at a consistent level
2. FY 2001-02 transfer was reduced from the level proposed in the Governor's Budget. The reduction was the result of the TIF transfer deferral.

Fund Estimate Item: Adjustment to Revenue – Transfers

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- The transfer of revenues from the SHA was reduced in the 2000-01 Governor's Budget and then escalated at 1.7 percent for the FE period.
- The $30,000 pro-rata share paid from the Aeronautics Account remained the same, but was not displayed in the Revised 2000 FE.

Changes since the Revised 2000 FE Adoption:

1. The 2000-01 Governor's Budget transferred $25 million from the SHA to the PTA and at the same time AB 2928 codified the non-Article XIX revenue transfer from the SHA to the PTA.

Assumptions / Options / Issues:

1. The Transportation Refinancing Plan in the May Revision proposes to defer the TIF transfers for two years. This will reduce projected PTA revenues during 2001-02 and 2002-03 by approximately $177 million and increase projected revenues in 2006-07 and 2007-08 by an estimated $295 million.
2. The Transportation Refinancing Plan also proposes to borrow $280 million to fund transit project costs in the Traffic Congestion Relief Fund (TCRF). These funds will be repaid to the PTA in 2007-08.

Fund Estimate Item: Expenditures

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- Inter-city rail and bus contract and expansion costs were assumed to increase about $15 million over the 1998 FE amount due primarily to the inclusion of an escalation rate to account for potential inflation.
- All TCI Program prior commitments were assumed expended before the 2000 FE period.
- Support costs were based on the 1999-00 Governor's Budget, escalated at the DOF annual rate of 2.3 percent.

Changes since the Revised 2000 FE Adoption:

1. 2001-02 Governor's Budget includes $98 million for inter-city rail track improvements.
2. 2001-02 Governor's Budget includes $9.5 million for expanded service on existing routes.
3. Mass Transit includes a $4 million appropriation for the Farmworkers Transportation Pilot (JARC), and $2.8 million for Bay Area Ferry operations.
4. $12 million appropriation to the Bay Area Water Transit Authority during FY 2000-01 to fund environmental impact report and design functions, of which $6 million is remaining. The Authority will receive the remaining moneys upon completion of certain documents and delivery to the Legislature.
5. $1.9 million appropriation for Capital Corridors Joint Powers Authority for expanded inter-city rail service in the Capitol Corridor.
6. The Governor's Budget proposes $18 million for a new Rural Transit System.
7. Support costs are based on the 2001-02 Governor's Budget, escalated at the DOF annual rate of 2.7 percent.
8. The Governor's Budget proposes $11.9 million in STIP rolling stock projects

Assumptions / Options / Issues:

1. Inter-city rail and bus operations are not escalated for inflation due to the assumption that future gains in efficiency will offset any inflationary increases.
2. Inter-city rail and bus operating funds are generally expended within the same fiscal year as the fiscal year of allocation.
3. The mass transit expenditure ratios reflect the typical implementation timeframe for transit projects.

STATE HIGHWAY ACCOUNT (SHA)

ASSUMPTIONS

Fund Estimate Item: Revenues - Cash Balance

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- The 2000 FE was updated to include the actual Beginning Reserve per the 1998-99 fiscal year financial statements. The adjusted Beginning Reserve was $1,736 million and was included in the available resources.
- The prudent cash balance, which is an estimate of the reserves needed to meet one month of the Department's commitments, was $440 million. The revised 2000 FE freed up $300 million over the 4-year fund estimate to be made available for programming leaving a prudent cash balance of $140 million.

Changes since the Revised 2000 FE Adoption:

1. At the end of February 28, 2001, the cash balance was $1,428 million. The commitments against cash were $2.3 billion. The cash balance on July 1, 2001 was projected to be $1,462 million.

Assumptions / Options / Issues:

1. Assume a prudent cash balance of $140 million.

Fund Estimate Item: Revenues - Federal

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- Federal resources were primarily generated from the Federal fuel tax on gasoline and diesel which was reflected in the Obligational Authority (OA) level expected under the Federal Transportation Efficiency Act for the 21st Century (TEA-21).
- The 2000 FE assumed that OA for California would be 90.5% of apportionments during the fund estimate period, which was about $40 million higher than that assumed in the 1998 FE.
- Also, beginning in fiscal year (FY) 2000, TEA-21 provided that the funding level for the Federal Aid Highway Program would be adjusted to reflect revised revenue receipt estimates for the Federal Highway Trust Fund. This adjustment, which is called the Revenue Aligned Budget Authority (RABA), authorized an estimated additional OA amount of about $160 million over the first three years of the 2000 FE.
- Federal Advanced Construction (AC) was assumed equal to future-year OA available (subject to a $1 billion limitation of available programmable STIP projects) to fund the Federal Capital Outlay Program, and continued through the last year of the STIP (2003-04).
- The FE reflected net cash from OA. State cash expenditures for AC were offset by Federal reimbursements (OA conversion) on a yearly basis.
- Federal Transportation Enhancement Activities (TEA) reservations were included in the fund estimate period with 75% as Local Assistance Regional Share and 25% as augmentation to the State Highway Operation and Protection Program (SHOPP) and Environmental Enhancement and Mitigation (EEM) programs.
- Expenditure levels reflected continuation of all programs authorized under current statutes.

Changes since the Revised 2000 FE Adoption:

1. The Revenue Aligned Budget Authority (RABA), authorizes an estimated additional OA amount of about $565.5 million over the of the five year 2002 FE.
2. $557 million of Highway Bridge Rehabilitation and Replacement (HBRR) funds will be used to fund Toll Bridge Seismic Retrofit Program cost increases as outlined in the Toll Bridge Seismic Retrofit Program Annual Report released by the Department on April 5, 2001.
3. At the end of fiscal year 1999-00 AC reached $1.8 billion due to Local Assistance delivering over 100 percent of the program.

Assumptions / Options / Issues:

1. TEA-21 will expire September 30, 2003. Federal apportionments are expected to grow by two percent annually during the TEA-21 period.
2. While the outcome of a new federal transportation act cannot be predicted, the last two federal acts have increased total apportionments by more than 50 percent. Therefore, it is reasonable to assume a 20 percent increase in apportionments in the first year of the new federal act. Thereafter, apportionments are projected to increase by 2 percent per year.

3. Existing programs including AC are assumed to continue into the next Federal transportation act.
4. The Department's goal is to maintain an AC level of approximately $1.2 billion over the FE period.
5. Assume obligational authority is 90.5 percent of apportionments over the FE period.

Fund Estimate Item: Revenues – GARVEE Bonds

Background

- Grant Anticipation Revenue Vehicles (GARVEE bonds or GARVEEs) are tax-exempt anticipation notes, bonds or other debt instrument financing mechanisms involving the payment of future Federal-aid highway funds to retire debt. GARVEEs can be used to finance right of way and/or construction costs to advance critical transportation projects sooner than through traditional funding mechanisms. This type of financing is appropriate when the additional public benefits resulting from early construction exceed the cost of financing.
- A GARVEE bond is any bond or note repayable, either exclusively or primarily, with future Federal-aid highway funds. A GARVEE bond does not mean the Federal government is guaranteeing the bonds.
- GARVEE bonds are subject to the same Federal match requirements as other Federal-aid projects. The matching State funds would be used for the project, rather than for repayment of interest on the bonds.
- Payable interest on GARVEE bonds has ranged from 4.25% to 5.5% in some states that have issued GARVEEs. While it is not possible to predict what interest rate a GARVEE issuance from the State of California would bring, factors that are considered by the rating agencies in determining the credit quality of the bond issue include the State's overall economic health and the soundness of the fiscal management of the State.
- Use of GARVEE bonds allows earlier construction of large projects where State and Federal funds may not otherwise be available.
- Use of GARVEE financing requires that the project(s) be designated as Advance Construction (AC). This could tie up a large portion of AC, and impact the state’s ability to commit future AC. However, designated AC would be converted to Federal-aid in equal amounts as debt service payments on the bonds are made.
- Use of federal funds to repay debt service for GARVEE bonds reduces the amount of future Obligation Authority available for programming. A maximum of 30 percent of annual deposits of Federal funds into the SHA can be used for debt service.
- The planned amount of Federal-aid reimbursement for debt service must be included in the STIP, per Federal Highway Administration (FHWA) guidelines.
- Transit projects are not eligible under the GARVEE Program. GARVEE funding is sponsored by the FHWA, and utilizes Federal Highway dollars.
- GARVEE financing can be used to avoid inflation delays, and economic development benefits would be realized sooner. GARVEE bonding spreads the cost of project(s) over the useful life and offers an alternative financing solution when other alternatives are not available or feasible.
- This financing mechanism incurs interest and issuance costs, and ties up federal-aid funds in out-years. Repayment requires a reduction to the potential program level equal to the amount of the bonds, plus interest and issuance expenses.

Types of GARVEEs

- Stand-alone GARVEE - the creditworthiness of the bonds depends entirely on future Federal-aid reimbursements, and not on the state's or any other entity's revenues or credit.
- Insured GARVEE is a bond issue for which the issuing entity has purchased bond insurance. Bond insurance is a credit enhancement intended to make the bonds more marketable.
- Backstopped GARVEE involves a pledge of another revenue source, such as state's gas tax or General Obligation authority (requires 2/3 voter approval), to enhance the creditworthiness of the bonds.
- "Direct" GARVEE – bonds issued for a specific project(s). The Federal share of debt service is paid with Federal-aid Advance Construction reimbursements. Projects must be Federal-aid eligible under Title 23 United State Code (U.S.C.), and authorized by the FHWA.
- "Indirect" GARVEE – bonds repayable with collected reimbursements for Federal-aid projects already constructed. This stream of reimbursements cannot be used for debt service on other, non-federal projects, without voter approval.

The GARVEE Process

- Identify Federal-aid eligible project(s) in the STIP. A GARVEE project would be authorized in same way other Federal-aid projects are authorized, except state can elect to seek reimbursement for costs of bond issuance (principal, interest, and related costs) instead of construction invoice costs. All direct GARVEE projects must be eligible for Federal-aid funds under Title 23 United State Code.
- Obtain approval for Advance Construction from FHWA Division office. The AC designation preserves the project's eligibility for future Federal-aid assistance.
- Select matching option
  - State funds cannot be used to pay interest on the bonds.
  - Up-front match, based on state share (typically 9 percent to 12 percent) of project cost
  - Match each debt service payment separately
  - Separate bond issue for matching funds, repaid with purely state funds (requires 2/3 voter approval)
- Issue bonds – this is the point where state or state entity receives the proceeds of the bonds, and simultaneously incurs debt. Project construction begins.
- Partial conversion of Advance Construction as debt service comes due
  - FHWA Division would obligate for debt service
  - State would make debt service payment; FHWA would reimburse state

Changes since the Revised 2000 FE Adoption:

1. GARVEE bonds have not yet been used in the State of California. To date, at least eight states have issued GARVEEs.

2. The CTC has approved GARVEE guidelines, which include the stipulation that GARVEE funded projects must be eligible under state law for the STIP, have the design and environmental clearance completed, be federally eligible, and meet Federal requirements.

Assumptions / Options / Issues:

1. Assume no GARVEE bonding. However, GARVEE bonding is a financing option that the CTC may consider if an urgent project meets the adopted criteria.

Fund Estimate Item: Revenues - State

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- Fuel tax revenues, which are driven by fuel consumption, reflected a 2 percent growth over the 2000 FE.
- Weight fee revenues reflected a 3.4 percent growth over the 2000 FE. These revenues were based on truck and trailer weight fees paid in or apportioned to California.
- The remaining State resources consisted primarily of Surplus Money Investment Fund (SMIF) interest and rental income and were the same as shown in the 1998 FE except for SMIF. SMIF interest was based on the forecasted SHA cash balance for each year of the FE period.
- Cash transfers ($795 million) from the SHA to the Toll Bridge Seismic Retrofit Account (per SB 60) were on an “ as needed” basis.
- Transfers to the Public Transportation Account (PTA) were increased to cover costs of project initiation documents (e.g., Project Study Reports - PSRs, PSSRs, PIRs, etc.) for proposed future State Highway projects previously funded from the SHA as owner operator work. This work is now being captured as part of the planning process work in the PTA, but was still required to be funded with SHA resources.

Changes since the Revised 2000 FE Adoption:

1. Weight fee and tax fuel revenues are higher in the 2002 FE and the average monthly revenues are coming in higher than estimated by Department of Finance in the 2001-02 Budget.
2. Cash transfer of $342 million from the State Highway Account to the Toll Bridge Seismic Retrofit Account (per SB 60) in the 2001-02 fiscal year, and transfer of $8.3 in the 2002-03 fiscal year. $444.7 million has already been transferred and accounted for in prior Fund Estimates.

Assumptions / Options / Issues:

1. Fuel tax revenues, which are driven by fuel consumption, reflect a projected 2.2 percent average annual growth over the 2002 FE due to increase in consumption.
2. Weight Fee revenues growth rate is project to average 3.8 percent annually.
3. Assumes the impact of the proposed Transportation Refinancing Plan of $354 million ($154 million in 01-02 and $200 million in 02-03) for Local Roads due to the Traffic Congestion Relief Fund deferring funding for two years. The funding will be reimbursed to the SHA in 2006-07.
4. Assumes the shift of support cost from the Traffic Congestion Relief Fund to the State Highway Account in the amount of $180 million to be reimbursed in 2006-07.

5. Senate Bill (SB) 2084 assumes changes in weight fees will be revenue neutral. 2000-01 weight fee revenues through March are 0.3 percent less than forecast.

Fund Estimate Item: Expenditures - Escalation Rates

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- The Department is required by statute to use the DOF escalation rate in developing the biennial FE. This rate is more reflective of over all state and local cost increases due to inflation and is not specifically designed to forecast changes in construction costs.
- The escalation rate used in the Revised 2000 FE development was 2.3 percent for state operations.
- For the 2000 FE, the CTC directed Caltrans to use the California Highway Construction Cost Index (CHCCI) of 3.5% per year for escalating SHOPP and STIP expenditures.

Changes since the Revised 2000 FE Adoption:

State Operations Index

1. The Department of Finance (DOF) states operations escalation rate has increased to 2.7 percent.

Construction Cost Index

1. Analysis of the Department of Transportation's California Highway Construction Cost Index (CHCCI) for selected construction items indicates the growth rate could be about 4.2% for 2001-02. Over the last ten year, the CHCCI has grown by an average of 3.4% annually.
2. DOF's California Construction Cost Index (CCCI) escalation rate for office buildings construction is 2.81% for 2001-02 (Budget Letter #99-07, issued July 7, 2000). This rate is a decrease from the 3.37% for 1999-00 (Budget Letter #98-08, issued June 12, 1998).

Assumptions / Options / Issues:

1. Establish rates for estimating State Operations costs and Capital construction costs. Options include:
   - State Operation costs at the DOF rate of 2.7%
   - Capital construction cost at the Department's CHCCI historical growth rate of 3.4%
2. Use DOF's state operations escalation rate of 2.7 percent for both State Operations and Capital construction costs.
3. Assume another escalation rate for State Operations costs and/or Capital construction costs.

Fund Estimate Item: Expenditures - State Operations

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- Statutes require that the FE incorporate "the most recent Budget Act" as the base in projecting future State Operations expenditures.
  - Statutes also allow for these expenditures to be adjusted for inflation.
  - Statutes require the fund estimate to use the DOF escalation rate of 2.3% to forecast State Operations commitments.
- Expenditure levels reflected continuation of all programs authorized under current statutes.

Changes since the 2000 Revised FE Adoption:

1. Use the 2001/02 Budget as the base in forecasting the 2002 FE.
2. The "Owner Operator" has sunset, therefore there will not be any "Owner Operator" Capital Outlay Support costs.
3. State Operations expenditures are adjusted for the Department of Finances escalation rate of 2.7 percent.
4. Historically, prior Fund Estimates with the exception of the 1998 and 2000 have had reservations over the FE period.

Assumptions / Options / Issues:

1. Assume a contingency of $50 million for Budget Change Proposals and Finance Letters in 2002-03 and 2003-04.

Fund Estimate Item: Expenditures – State Highway Operations Program Plan (SHOPP)

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- The SHOPP included projects that were based on the 4-year SHOPP approved by the CTC and the Department 10-year plan as modified by the CTC. COS modeling for SHOPP assumed a continuation of SHOPP at a level consistent with the 10-year plan.
- For the 2000 FE, the CTC directed Caltrans to use the CHCCI of 3.5% per year (1998 FE used 2.2%). The change in escalation rates added approximately $86 million in SHOPP expenditures during the FE period.
- There was an increase in COS costs, particularly for minor projects for which project development costs have proven to be relatively higher than typical for projects of a larger size.
- The SHOPP program was augmented with about $21 million in Federal TEA reservations during the FE period.
- The Adopted 2000 FE reflects the "10-Year SHOPP Plan". However, the SHOPP Program received a one-time augmentation of $390 million over the "10-Year SHOPP Plan", $287 million for Capital Outlay and $103 million for Capital Outlay Support.

Changes since the 2000 Revised FE Adoption:

1. Increase SHOPP to include expenditures for Legislatively approved Office Building projects.

Assumptions / Options / Issues:

1. The Department will be proposing an increase in the SHOPP program as part of the Fund Estimate in July.
2. Assume future Legislatively approved Office Building projects will be funded with Lease Revenue bonds for the construction phase and use SHOPP funding for the Preliminary and Working Drawing phases.

Fund Estimate Item: Expenditures - Local Assistance

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

Federal Local Assistance

- Included Regional State Transportation Plan (RSTP), Congestion Mitigation and Air quality (CMAQ) and TEA funds.
- The Commission annually allocated lump sum amounts for local assistance.
- The funds were then managed and programmed by regional agencies.
- The FE assumed Federal local assistance delivery levels at 100% of available funds (OA at 90.5% of apportionments under TEA-21).

Retrofit Soundwall Program

- The FE reflected the Administration's decision to fund a specific list of soundwall retrofit projects "off the top" through local assistance.
- It was based upon the statutory commitment to complete specific soundwall projects (Streets & Highways Code Section 215.5).
- The current cost estimate for the remaining retrofit soundwall projects was approximately $226 million, which included both support and capital costs, which translated into $170 million of cash expenditures during the four-year FE period.

State and Local Partnership Transportation Program

- Reflected close out of this program by 2002 consistent with chaptered legislation (SB 482).

Environmental Enhancement and Mitigation (EEM) Program

- $10 million per year augmented with Federal TEA resources.

Changes since the 2000 Revised FE Adoption:

1. Local Assistance assumes a projects delivery level of 100%.

Assumptions / Options / Issues:

1. Assume Local Assistance project delivery is 100 percent over the FE period?
2. Assume no repayment in the FE period of the estimated $380 million in Local Assistance OA used by the State in previous years.

Fund Estimate Item: Expenditures - Reservations

Assumptions and methodology included in the Revised 2000 FE adopted in July 2000:

- "Reservations for Economic Uncertainties":
  - This was the "traditional" reservation totaling $160 million. Due to the uncertainty of the FE and STIP process called for by SB 45, the reserve was spread evenly over the four years (approximately $40 million per year).
- "Short-term County Share Reservations":
  - These reservations were proposed in the first two years of the STIP.
  - They were available to fund STIP amendments (including projects that will be ready for allocation during the two-year period).
  - The CTC applied the "timely use of funds" rule to short-term reserves as if they were programmed projects.
  - Cash expenditures for the short-term county share reservation were $38 million.
- "Long-term County Share Reservations":
  - Regions may choose to reserve a part or all of their county shares until the next county share period (i.e. foregoing programming of funds until the 2002 STIP).
  - The CTC has the authority to use funds freed up from these long-term reservations to advance county shares in other counties.
  - The long-term county share reservation in the 1998 STIP was $779 million resulting in $576 million of cash commitments during the 2000 Fund Estimate period.
  - Programming of long-term county share reservations via STIP amendments would not be constrained by the assumptions used in building the 2000 FE.

Changes since the Revised 2000 FE Adoption:

1. No amount is held in reserve for economic uncertainties.
2. "Short and Long term County Share Reservations" – These reservations are included in the program's expenditure projections as follows: 20% for Caltrans projects, 55% on Local Assistance projects, and 25% for Mass Transportation projects. This is based upon the 2000 STIP cycle and the intent of Orange County using their programmed shares on transit.

Assumptions / Options / Issues:

1. Assume no amount held in reserve for economic uncertainties.
2. Assume a Reservation for Economic Uncertainties of $160 million over the 5-year Fund Estimate period.

Fund Estimate Item: Expenditures – Prior STIP Capital Outlay Commitments

Assumptions and Methodology included in the Revised 2000 FE adopted in July 2000:

- Included STIP amendments resulting from the revised 1998 FE adopted in January 1999. Commitments made in the 1998 and prior STIPs were assumed to continue.
- Transit expenditures during the 2000 FE period had been reduced due to projects coming online slower than anticipated in the 1998 FE.
- Expenditure levels reflected continuation of all programs authorized under current statutes.
- COS for committed programs was based on estimated actual costs.
  - No assumption was made regarding the mix of new capital projects or the corresponding COS levels.
  - COS was included in the amount available for new programming.

Changes since the Revised 2000 FE Adoption:

1. The escalation rated used for STIP capital expenditures is the CHCCI of 4.2% per year.
2. An additional $1.5 million in new programming capacity was provided by the 2000 STIP.
3. Commitments made in the 2000 STIP are assumed to continue.

Assumptions / Options / Issues:

1. 2000 STIP project costs will be adjusted to reflect approved escalation rates.
2. Expenditure levels reflect a continuation of all programs authorized under current statutes.

Fund Estimate Item: Expenditures - Contingencies

Assumptions and Methodology included in the Revised 2000 FE adopted in July 2000:

<u>Contingency for Delivery Shortfall:</u>

- The 2000 FE assumed 100% delivery of available Federal local assistance funds. However, local delivery during the past two years was at 40%. To ensure that all programmed funds are expended, a contingency section was added to the 2000 FE.
- The "Contingency for Delivery Shortfall" line in the FE represented the Federal resources that would be available assuming that local project delivery gradually increases to 45% in FY 00-01 then at 5% per year over the FE period to 60% in FY 03-04.
- The total "Contingency for Delivery Shortfall" equaled $1.5 billion spread of the FE period as follows:
    - 1990-00 FY $300 million
    - 2000-01 FY $352 million
    - 2001-02 FY $330 million
    - 2002-03 FY $287 million
    - 2003-04 FY $237 million

  This was a temporary strategy until local agencies improved project delivery.
- The first call on this "contingent" resource was covering the $524 million STIP funding shortfall.

<u>Other Potential commitments for "contingent" resources:</u>

Stormwater

- Resources were needed to ensure compliance with the conditions and requirements set forth by the State Water Resources Control Board and National Pollution Discharge Elimination System (NPDES) regulations.
- The United States Environmental Protection Agency (EPA) had issued more stringent requirements regarding discharge from storm water drain systems and the impact on water quality standards.
- Caltrans was faced with conducting research to determine the extent of the storm water discharge problem and then developing and implementing overall watershed plans in concert with local municipalities.

SHOPP/TOPS

- Resources were needed for implementation of the Traffic Operation Program Strategies (TOPS). These were system operational improvements aimed directly at reducing urban congestion through system management in partnership with Regional agencies. Strategies included the effective use of Traffic Operations Centers, roadway improvements, land-use changes, Local transit systems, etc.

- TOPS was viewed as a systematic urban bottleneck removal program. This was in contrast to SHOPP operational improvements, which were aimed at spot congestion relief issues statewide.

Changes since the Revised 2000 FE Adoption:

1. Contingency for Delivery Shortfall – The 2002 FE assumes the same level of contingency in 2001-02 , 2002-03 and 2003-04.
2. Other Potential commitments for "contingent" resources – The 2002 FE assumes that there will not be other potential commitments for contingent resources.

Assumptions / Options / Issues:

1. Assume the same level of contingencies as in the adopted 2000 FE, which was $330 million in 2001-02, $287 million in 2002-03 and $237 million in 2003-04.
2. Assume there will not be a contingency for delivery shortfalls or other potential commitments for contingent resources.

AERONAUTICS ACCOUNT

ASSUMPTIONS

Fund Estimate Item: Aeronautics Account Assumptions

Assumptions and methodology included in the 2000 FE adopted in July 2000:

- The beginning balance going into the STIP period was the same as shown in the 1999-00 Governor's Budget.
- Revenues generated from the 18-cent excise tax on aviation gasoline and the 2-cent tax on jet fuel were based on the 1999-00 Governor's Budget.
  - Assumed aviation fuel tax revenue declined slightly (less than 1%) as jet fuel increased.
- Interest income was based on an actual cash balance of $14 million (recurring since 1997), at the current Pooled Money Investment Account rate.
- Miscellaneous revenue estimates and the transfer to the PTA for planning costs were held at the 1999-2000 Governor's Budget amount through the STIP period.
- Support costs were based on the 1999-00 Governor's Budget, escalated at the DOF annual rate of 2.3 percent.
- Grants to local agencies were assumed to remain at $1.5 million through the STIP period.
- Acquisition and Development (A&D) costs reflected the remaining year of the three-year program adopted in June 1998. Adjustment was made in the base year for 1998 projects that will be delivered in FY 1999-00.
- The Airport Improvement Program (AIP) was assumed at the 1998-99 program level of $1.4 million through the STIP period.
  - Assumed the set-aside in the adopted program would be increased, and A&D would be reduced if a major increase in Federal funds under consideration by Congress occurred.

Changes since the 2000 FE adoption:

1. Interest income is based on the actual cash balance of $18 million and Aeronautics program expenditure projections for the 2001-02 FY, using the current SMIF rate.
2. Support costs are based on the 01-02 Governor's Budget, escalated at the DOF annual rate of 2.7 percent.
3. The level of federal AIP funds is in a period of significant change. The exact amount of the AIP match will be determined when the next three-year Aeronautics program is adopted in FY 2002-03.

Assumptions/Options/Issues:

1. The Airport Improvement Program (AIP) is shown at $1.7 million for the 2001-02 FY and $1.8 million for the 2002-03 FY. The remainder of the STIP period is shown without AIP spending. The AIP match for these years will be determined when the next three-year Aeronautics program is adopted in FY 2002-03.

TOLL BRIDGE REVENUE ACCOUNTS

ASSUMPTIONS

Fund Estimate Item: Toll Bridge Revenue Accounts Assumptions

Assumptions and methodology included in the 2000 FE adopted in July 2000:

- Beginning Reserves reflected estimated balances.
- In accordance with CTC action at the November 3-4, 1999 Commission meeting, Caltrans would discontinue the collection of toll charges on the Vincent Thomas Bridge at a date no later than January 1, 2000.
- Program costs were based on 1999-00 estimated expenditures escalated at the DOF rate.
- Rehabilitation expenditures were based on districts' project schedules.

Changes since the 2000 FE adoption:

1. Toll collection on the Vincent Thomas Bridge ceased effective January 1, 2000.
2. The Toll Bridge Revenue Accounts do not generate revenues that the CTC has the authority to allocate. Senate Bill 226 (Chapter 328, Statutes of 1997), required that toll revenues and all other income derived from Northern and Southern Unit Bridges (including Antioch, Benicia-Martinez, Carquinez, Richmond-San Rafael, Dumbarton, San Mateo-Hayward, and San Francisco-Oakland Bay Bridge), except the revenues from the seismic retrofit surcharge, be deposited in the Bay Area Toll Account. Similarly, Section 30796.7 of the Streets and Highways Code transfers authority regarding tolls on the San Diego-Coronado Bridge from the CTC to the San Diego Association of Governments.
3. The fund balance of $49 million represents funds reserved for repayment of loans from other accounts, and for repayment of bond debt.

Assumptions/Options/Issues:

1. There are no revenues from the Toll Bridge Revenue Accounts that the CTC has retained authority over; therefore, this fund will be eliminated from future Fund Estimates.

TRANSPORTATION INVESTMENT FUND

ASSUMPTIONS

Fund Estimate Item: Transportation Investment Fund (TIF)

Assumptions and methodology included in the 2000 FE adopted in July 2000:

- This Account was not presented as a separate fund estimate, but was, however, included in the State Highway Account (SHA) 2000 Fund Estimate. The TIF resources available for STIP programming were displayed as a single line item with funding available from 2001-02 through 2005-06.

Changes since the 2000 FE adoption:

1. Gasoline sales tax revenue forecasts have been updated for the May Revise. Projected revenue for the TIF has increased substantially since the Traffic Congestion Relief Program was initially proposed. The following are various DOF estimates of the TIF funding available for STIP programming:
   - 2000 May Revise……………………………………$0.597 Billion
   - 2001-02 Governor's Budget………………………...$1.128 Billion
   - 2001 May Revise……………………………………$1.066 Billion
   - Transportation Refinancing Plan…………………..…$1.540 Billion

Assumptions/Options/Issues:

1. The Transportation Refinancing Plan in the May Revision proposes to defer the General Fund transfer to the TIF for two years. This is projected to increase the total funding available for STIP programming over the life of the TIF by $474 million.

RAIL BOND ACCOUNT

ASSUMPTIONS

Fund Estimate Item: Proposition 116 Rail Bonds

Assumptions and methodology included in the 2000 FE adopted in July 2000:

- The Clean Air and Transportation Improvement Bond Act of 1990 (Proposition 116) had $341 million available for programming.
- Of the $1.99 billion available from the sales of bonds:
  - $1.65 billion had been committed to projects.
  - Cash expenditures of $1.38 billion had been made.

Changes since the 2000 FE adoption:

1. As of February 2001 the Clean Air and Transportation Improvement Bond Act of 1990 (Proposition 116) had $197.58 million available for programming. Of the $1.99 billion available from the sales of bonds:
   - $1.79 billion has been committed to projects.
   - Cash expenditures of $1.57 billion have been made.

Assumptions/Options/Issues:

1. This portion of the Fund Estimate is provided for informational use. Funds from this fund are not available for programming in the STIP.

TRAFFIC CONGESTION RELIEF FUND

ASSUMPTIONS

Fund Estimate Item: Traffic Congestion Relief Fund (TCRF)

Assumptions and methodology included in the 2000 FE adopted in July 2000:

- The Traffic Congestion Relief (TCR) Act of 2000 (AB 2928 and SB 1662) made $5.390 billion available for transportation projects within the newly established Traffic Congestion Relief Fund.
  - $1.5 billion from the General Fund and $500 million from the transfer of sales tax on motor vehicle fuel during 2000-01 fiscal year.
  - $3.39 billion ($678 million annually) to be transferred from the Transportation Investment Fund beginning in the 2001-02 fiscal year; ending June 30, 2006.
- The TCR Act extended the STIP period from four to five years.

Changes since the 2000 FE adoption:

1. As of March 2001, the Traffic Congestion Relief Fund has allocated over $354 million in Local Assistance and Capital Outlay funding.
   - $73.6 million in encumbrances are under contract
   - Cash expenditures of $32.5 million have been made.

Assumptions/Options/Issues:

1. This portion of the Fund Estimate is provided for information use. Funds from this fund are committed to 141 designated transportation projects.
2. The May Revise revenue forecast continues to provide funding for the program; however, the proposed Transportation Refinancing Plan will defer funds for a two-year period beginning in 2001-02. Sufficient reserves are available in the TCRF to meet the programs cash needs during this time, and plans include authority to borrow from the SHA, PTA, Motor Vehicle Account and the General Fund if needed to meet future cash flow needs.
3. The Transportation Refinancing Plan proposes $3.314 billion ($678 million annually from 03-04 through 06-07; $602 million in 07-08).